Memorandum

To: Finance Committee

From: Anthony J. Mortillaro, Interim Executive Director

CC:

Date: June 10, 2011

Re: Draft Financial Policies

Background

In October 2009 the Board adopted the Districts first Financial Policies. Since this adoption no modifications have been made to these policies, however, the District's financial condition, service levels and staffing has changed significantly. It is recommended that these policies be reviewed at least every three years to ensure that the District is maintaining and utilizing a comprehensive framework for the management of its financial resources.

Attached for the Committee's review is an extensive redraft of the Districts Financial policies. Following is a comparative matrix of the sections of the new versus existing policies.

Sections	New Financial Policies	Existing Financial Policies
Purpose	X	
Budgetary Policies	X	Minimal reference
Operating Program	X	
Reserve Policy	X	X
Capital Program	X	Minimal reference
Debt Policy	X	
Investment Policy	X	
Risk Management Policy	X	
Periodic Review and Amendment	X	
Management Reporting Requirements	X	

Recommendation

Staff recommends that the Committee consider the attached Financial Policies for recommendation to the Board.

Attachments:

Draft Financial Policies
Existing Financial Policies

NORTH CENTRAL REGIONAL TRANSIT DISTRICT

FINANCIAL POLICIES

Purpose

The Financial Policies described herein are designed to provide a comprehensive framework for the management of financial resources for the North Central Regional Transit District (NCRTD). They provide guidelines for decision making by the NCRTD Board and management on how financial resources shall be utilized to fulfill the mission of the transit system, meet obligations and protect the public interest.

Objectives:

- Cost effective allocation and use of NCRTD financial resources in achieving the Districts mission.
- Compliance with applicable Federal and State laws, regulations and guidelines governing transit funding.
- Use of sound business and accounting practices in managing NCRTD financial affairs.
- Consistent financial practices, operational efficiencies and best practices.

1. Budgetary Policies

The adopted budget represents the ongoing commitment of the management and staff to operate and maintain the NCRTD in a fiscally sound manner according to the guidelines, policies and direction set forth herein. The Budget spans a fiscal year (beginning July 1 and ending June 30) and contains operating and non-operating revenues and expenses, grants, capital expenditures and reserves for the District. The budget is an appropriation document that gives the District the authority to spend funds for operating expenses, other expenditures such as contracts and capital and reserves.

Each year, the District staff will develop a budget plan that will lead to the Board's review and adoption of the subsequent year's budget. The timing of this process will be consistent with the established strategy and priorities at the District and with statutory requirements.

The District will also prepare a ten-year Long Term Financial plan for the purpose of identifying future financial challenges. It will be updated annually concurrent with the development of the annual budget.

A budget calendar for the fiscal year is to be established to make clear deliverables and deadlines.

Each year the District will establish a budget by:

- Providing a comprehensive review of the Districts sources and uses of funds for operating and capital expenditures.
- Tailoring the budget process into an effective management tool for setting financial priorities and meeting strategic objectives.
- Ensuring that the budget manages financial resources in a manner that:
  - Is prudent and sustainable
  - Meets financial requirements of medium and long-term capital needs
- Producing budget information that is:
  - Clear, comprehensible and transparent to employees and constituencies
  - Accurate, timely, and easy to access
- Monitoring and analyzing revenues and expenditures throughout the fiscal year for compliance and accountability.
- A quarterly cash and investment report and monthly one-year cash flow forecast report will be prepared.
- Current appropriations for all funds are limited to the sum available, unrestricted cash balances and revenues estimated to be received in the current budget year.
- All District divisions will operate within the adopted budget. From time to time, the District will consider spending requests for new or expanded programs during the course of the fiscal year and, to the extent possible, such increases to current operations will be funded by reoccurring current revenues unless the request is for a one time activity that does not require an ongoing funding allocation. On occasion, there may be a need for Board action to draw funds from the Districts un-appropriated balance in order to meet unforeseen financial requirements.
- Capital assets owned by the District shall be maintained on a regular schedule. The District will recognize the impact of wear and tear of existing capital assets in the operating budget. Maintenance costs will be indentified and incorporated into the annual operating budget as necessary. These costs include items such as renovations, maintenance and service contracts.
- District funds will be reconciled at the close of the fiscal year to determine the available cash balance at year end.
- Reports to the Board shall include Fiscal Impact discussions as to how they may affect the budget plus the estimated cost and benefit of the program or service in the current and future years.

Budgetary Control:

Budget control is maintained at the departmental/divisional level. The Executive Director has the authority to approve appropriation transfers between programs, divisions or departments. In no case may total expenditures adopted for the fiscal

year exceed that which is appropriated by the District Board without budget amendment.

2. Operating Program:

The District utilizes a general operating fund, which will be used to account for all financial transactions required for the current operation of the public transportation system. The two primary components of this fund are:

A. Operating Income (Income Sources)

- Operating income includes revenues derived from the Regional Transit Gross Receipts Transit tax (RT GRT), operating and capital assistance (federal and state funds), passenger fares, contractual reimbursements or contributions, interest income, and other miscellaneous sources of revenue.

- The District will continuously seek new revenues and will, to the extent consistent with its public transit objectives, pursue a diverse revenue base in an effort to maintain a stable revenue stream. Seeking revenue diversity will help shelter the District from short-term fluctuations in any one revenue source.

- Revenues from the RT GRT are tracked in a line item dedicated to that purpose. According to the ballot initiative that created the RT GRT, the funds are to be used to expand regional public transit in the four-county area. The District interprets this to mean that RT GRT funds should be used to implement approved service plans per Board adopted resolutions. Approved service plans may include, but are not limited to, establishing entirely new regional routes; increasing the frequency of service on existing routes; purchasing more and larger vehicles so more riders may avail themselves of public transit; converting pilot projects to regular services; and coordinating with other service providers, such as Santa Fe Trails, the Taos Chili Line, Atomic City Transit, the Rail Runner, and Park & Ride to improve services and strive to provide a seamless transit experience to those in Districts service area.

  The following definition has been adopted by the Board and will be utilized to ascertain whether a proposed regional route is eligible to be funded by RT GRT:

  1. It connects to a service that leaves the district such as the Rail Runner or Park & Ride; or
  2. It crosses a jurisdictional line between Members;
  3. It connects two or more Members;
  4. It is solely within a single Member's local area but directly connects both in time and location with a service or route that makes possible travel outside the local area to another Member's area;

5. It connects two distinct and separate communities within one Member's area such as Questa and Red River in Taos County or Los Alamos and White Rock in Los Alamos County;
6. The Board of Directors will annually review all service plans within the region in order to determine regional routes by the qualification stated above. The board will have the ability to add or eliminate routes based on criteria for efficiency within the District.

Place Holder for when the Board adopts a methodology for the allocation of RT GRT

RT GRT revenue that is deemed to be reoccurring revenue and not allocated for regional routes is placed in the operating reserve balance and as such maybe be available for allocation in the following year for expanded service regional routes as recommended by the Executive Director and adopted by the Board on the bases of the methodology for the allocation of RT GRT as described above. Prior to commitment of any remaining RT GRT reserve operating balance in the ensuing fiscal year to expanded regional service routes, these routes must be included in the requesting entities annual service plan and adopted by the NCRTD Board as well. In no event will these funds be allocated for new or expanded service regional routes if it will result in the diminishment of the reserve operating balance requirements as described within these policies or if it will impact the Districts ability to meet its capital equipment and infrastructure requirements.

The District is responsible for seeing that RT GRT funds are spent appropriately. For those entities operating their own transit services an invoice shall be submitted quarterly to the District requesting reimbursement of funds spent in accordance with RT GRT funded service plans and adopted methodology. Invoices shall contain sufficient line-item detail to support the appropriateness of the expenditure and concurrence with the intended use of the funds. Upon receipt and review of the invoice, the District will reimburse the entity, provided sufficient RT GRT funds have been received.

- Tribal Transit Funds. When requested, the District provides administrative services to manage Federal Tribal Transit funds awarded to tribal entities within its service area. The District provides detailed budgets for these programs and as practical, handles all administrative responsibilities with respect to the (Federal Transit Administration) FTA. These budgets are not included in the District's consolidated budget since these funds are not awarded directly to the District but to the named Tribal Entities. The District's relationship with the Pueblos with respect to these funds is contractual, as a provider of services. The District assesses an administrative fee and includes this as a line item in the budget. These funds do not require a local match.

Tribal Transit funds are managed as follows:

1. The tribal governments fill out and sign the necessary paperwork (including a Designation of Signature Authority and other related paperwork) that grants District personnel access to their grant-related records, including the Transportation Award Management System (TEAM) and ECHO.
2. Working with the tribal entities, District staff assist in developing a service plan and an operating budget, including an agreed-upon percentage for Administrative costs.
3. District personnel enter the budgets and other project information into the FTA's TEAM system and work with FTA personnel to shepherd the application through the FTA approval process.
4. The District may advance funds to cover operating costs.
5. District personnel prepare monthly reports detailing expenditures for tribal routes.
6. Included in this report is a line item called an Administrative Fee which is intended to defray the District's costs of administrating these programs.
7. Using this information, either District staff enter the draw-down request into the ECHO payment system and send a copy of the report and the ECHO request to the relevant tribal entity, or Tribal personnel may perform this function, depending on FTA requirements and the wishes of Tribal authorities.
8. When the ECHO deposit is made in the tribal entity's bank account (usually two or three days after the request is submitted) the tribal entity issues a check to reimburse the NCRTD for the funds it has advanced to pay for the month's services.
9. NCRTD and tribal staff meet periodically to evaluate the effectiveness of the services being provided and the status of their budgets, making changes to each as necessary.

B. Operating Expenses

Operating expenses are defined as the day-to-day costs incurred for public transit delivery, administrative overhead, and other common and normal expenses.

C. Operating Balance (difference between operating income and operating expenses)

The operating balance is utilized to fund the capital program and reserve requirements.

D. Administrative Overhead Costs

Direct and Indirect costs that are incurred for common or joint purposes in support of transit service or capital programs. Costs are allocated to programs based on allocation methods which comply with Federal and State guidelines.

3. Reserve Policy

This Financial Reserve Policy contains polices that govern the management of the District's financial reserves in order to:

- Maintain access to capital markets and other sources of capital funding at the most efficient cost of funds for the District;
- Manage financial risks prudently by maintaining required and additional financial reserves to meet the Districts financial needs;
- Meet New Mexico State Department of Finance and Administration (DFA) requirements for minimum reserve balance requirements and any Board requirements;
- Meet or exceed all debt coverage requirements, if any; and
- Establish prudent levels of liquidity.

The District will maintain at all times one month of operating revenue as a cash reserve to meet its DFA requirements.

The District will seek to maintain at all times an amount equaling 25% of its operating revenue as a cash reserve which is inclusive of the DFA requirement.

4. Capital Program

The NCRTD Capital Investment Plan (CIP) shall describe capital expenditures to be incurred to meet capital needs arising from long-term plans, asset maintenance or other capital needs. It sets forth each project in which the NCRTD will be involved and specifies the resources estimated to be available or required to finance the projected expenditures. The Executive Director shall submit to the NCRTD Board a proposed Capital Investment Plan prior to or in conjunction with the annual proposed budget. The Board shall approve the CIP no later than June 1 of each year. In the event that this date falls on a weekend, the preceding Friday shall prevail.

A. The Executive Director reviews all District capital projects to be recommended for inclusion in the CIP subject to the oversight and approval of the Board. In this capacity the Executive Director or a designee will:

   a. Affirm the linkage between proposed Capital Projects and the Districts strategic goals and objectives;
   b. Asses the linkage between the capital and operating budgets to ensure appropriate allocation of resources;
   c. Reaffirm the validity of a proposed CIP for annual approval by the District Board;
   d. Provide discipline and enforcement to the approved CIP;
   e. Monitor the progress of Capital Projects. Major changes in project scope or direction shall be presented to the Board for approval;
   f. Review the qualitative and quantitative (including financial analysis) evaluation of Capital Projects to determine the priority of projects;

g. Review, assess and approve or deny the placement of proposed Capital Projects on the CIP;
h. Review CIP policies and procedures periodically and implementing changes as necessary;
i. Provide a mechanism for financial and resource planning for the District;
j. Authorize total project cost and fiscal year cost allocation changes.

B. The CIP is a planning document only. Any appropriations for specific project must be approved by the Board during the annual budget process.

C. The Districts CIP either creates a new asset or significantly extends the life of an existing asset.

D. Large Capital equipment purchases may be included in the CIP.

E. The Districts Capital Program will be used to account for the planning/design, acquisition, construction and reconstruction/rehabilitation of major capital facilities and equipment. It may include Federal and State grants as well as local funds to be used for capital acquisition and construction with and without benefit of grant funding including transfers from the Annual Operating Reserve Balance, project-related reimbursements, debt financing or other sources of capital funding.

F. Capital Expenditures are defined as expenditures incurred to meet capital needs arising from the District CIP, asset capital maintenance or other capital needs.

G. Capital Expenditure

a) Items/acquisitions that have a useful life in excess of one year and an acquisition cost of greater than or equal to $5,000.

b) Direct and eligible indirect costs, which are related and add value to a capital project, shall also be defined as capital expenditures.

H. Capital Performance Policy Objectives

a. The NCRTD will seek to obtain maximum Federal and State financing by pursing all appropriate funding available for public transportation systems.

b. A portion of the annual CIP will be allocated to the proper maintenance of the Districts capital assets including regular replacement of the fleet and equipment and the rehabilitation or replacement of facilities.

I. Capital Investment Plan Funding

Funding of the CIP will endeavor to fund capital needs from a combination of sources including:

- Pay-as-you–Go (cash funded, PAYGO)
- Grants from Federal/State/Other Sources
- Debt Financing and special loans

The CIP funding strategy will emphasize the use of PAYGO as a means to meet transit funding requirements with debt used as a secondary source. The level of PAYGO funding will be dependent on a number of factors including availability of funds from the RT GRT and other sources, the appropriate levels of retained fund balances, economic and other factors.

5. Debt Policy

The purpose of the Debt Policy is to establish guidelines for the issuance and management of the Districts debt. The District has the ability to issue debt under its statutory authority. This Debt Policy confirms the commitment of the Board, management, staff, advisors and other decision makers to adhere to sound financial management practices, including full and timely repayment of all borrowings, and achieving an appropriate level of capital within prudent risk parameters. The following objectives of the Debt Policy include the following:

- Obtain and maintain a high credit rating;
- Provide for an efficient overall cost of borrowing for the District;
- Provide specific guidelines with respect to the overall management of debt if incurred;
- Set forth a process for selecting various consultants who will assist the District in the issuance and management of the Districts debt;
- Support for the District's strategic plan objectives;

This Debt Policy shall govern the issuance and management of all debt and lease financings (excludes small item leasing such as copiers, etc...) funded from the capital markets, and shall include all obligations including investment of bond proceeds.

While adherence to this Debt Policy is required in applicable circumstances, the District recognized that changes in capital markets and unforeseen circumstances may produce situations that are not covered by the Debt Policy or require modifications or exceptions to achieve Debt Policy goals. In these cases, specific authorization from the Board is necessary to provide management appropriate flexibility. However, long term debt will be used on an as needed basis to fund the Districts capital investment needs.

The Debt Policy requires that each debt be specifically authorized by the District Board.

Debt Financing:

i. Principal maturity for debt will be linked to asset life and will not exceed thirty (30) years.
ii. Variable rate or other short term maturing debt maybe issued for capital purposes in anticipation of receipt of approved Federal and/or State grants, with the goal of repaying a portion or all of the debt issued upon receipt of funds.
iii. Issuance of debt must be linked to:
    1. Adequate encumbrance capacity to let contracts for the entire capital program in the most effective sequence.
    2. Cash flow requirements.
    3. Fund balance to guard against anticipated/unanticipated risks
iv. RT GRT will be used for the payment of annual debt service costs.
v. Debt will not be used for annual operating costs.

Lease Financing:

Lease obligations are a routine and appropriate means of financing capital equipment. These types of obligations maybe considered for equipment and assets that are not financed as a cost item under normal operating expenditures. The useful life of the equipment, the terms and conditions of the lease, and the direct impact on debt capacity and budget flexibility will be evaluated prior to the implementation of a lease program. Efforts will be made to fund capital equipment with a pay-as-you-go financing where feasible. Cash flow sufficiency, capital program requirements, lease program structures and cast and market factors will be considered in conjunction with a pay-as-you-go strategy in lieu of financing. Short-term equipment leases that do not access the capital markets are not covered by this policy.

Debt Service Coverage Ratios:

Debt Service coverage ratios establish a guideline for levels of annual operating costs relative to current and future debt service costs. This performance objective for Net debt service coverage is that the Operating Balance shall be greater than 1.25 times the annual debt service cost; however, the actual terms and conditions specific to each bond issue are controlled by the bond documents.

The net debt service coverage ratio is calculated as follows:

i. Operating income less operating expense equals the operating balance
ii. Operating balance divided by the annual debt service costs equals net debt service coverage ratio

The performance objective for Gross debt service coverage ratio (i.e. annual regional transit gross receipts tax/annual cumulative debt service cost) shall be maintained at a minimum of 3.0 times.

The maintenance of a debt service coverage ratio together with other performance measures provides multiple measures for the financial soundness of the NCRTD.

Refunding Bonds:

A present value analysis must be prepared that identifies the economic effects of any refunding to be proposed to the Board. It is acknowledged that some refunding may be executed for other than economic purposes, such as to restructure debt, change the type of debt instruments being used, or to retire a bond issue and indenture in order to achieve more desirable covenants. Approval by the Board is required for any refunding.

Method of Bond Sale:

The District will generally utilize a competitive sale process when complex bond structuring and marketing requirements are not an issue and the perceived pricing differential between competitive and negotiated sale is negligible. There are three potential methods of sale: competitive, negotiated, and private placement. Each type of bond sale has the potential to provide the lowest cost given the right conditions. The conditions under which each type of bond sale is best used are provided below. All or some of the conditions discussed will affect the method of sale.

A. Competitive Sale

1. Bond prices are stable and/or demand is strong.
2. Issuer has a strong credit rating.
3. Issuer is well known to investors.
4. There are no complex explanations required during marketing, regarding: issuer's projects, media coverage, political structure, political support, funding, or credit quality.
5. The bond type and structural features are conventional.
6. Bond insurance is included or pre-qualified (available).
7. Manageable transaction size.
8. Market timing and interest rate sensitivity are not critical to the pricing.

B. Negotiated Sale

1. Bond prices are volatile and/or demand is weak or supply of competing bonds is high.

2. Market timing is important, such as for refunding.
3. Coordination of multiple components of the financing is required.
4. Issuer has lower or weakening credit rating.
5. Issuer is not well known to investors.
6. Sale and marketing of the bonds will require complex explanations about the issuer's projects, media coverage, political structure, political support, funding, or credit quality.
7. The bond type and/or structural features are non-standard, such as for a forward bond sale, issuance of variable rate bonds or where there is use of derivative products.
8. Bond insurance is not available or not offered.
9. Early structuring and market participation by underwriters desired.
10. Pre-qualified underwriter's pool.
11. Large transaction size.
12. Expected high retail demand.

C. Private Placement

A Private Placement is a sale that is structured specifically for one purchaser such as a bank. The District reserves the right to privately place its securities if the need arises. Furthermore, any member of the active underwriting pool who presents the District with a cost savings financing plan, will be awarded to manage the financing/restructuring transaction.

Bond Consultants:

The District will select its financial advisors and its bond counsel by competitive process through a Request for Proposals (RFP). The District's contracting policies, which are in effect at the time, will apply to all contracts with finance professionals. Selection may be based on a best value approach for professional services or the lowest responsive cost effective bid based upon pre-determined criteria.

All financial advisors, bond counsel and underwriters will be selected through a Request for Proposals (RFP) or Request for Qualifications (RFQ) process, whichever is most appropriate given the circumstances. In isolated instances, such contracts may be awarded on a sole source basis if it is clear that a RFP/RFQ process would not be feasible or in the District's interests.

Financial Advisors:

The District may retain one or more financial advisory firms to provide general advice on the District's debt management program, financial condition, budget options, arbitrage rebate review, and rating agency relations. Additionally, a

financial advisor may assist with the structuring of the District's Revenue Bond issuances and may be used on an as-needed basis to provide financial advisory services that do not fall into the other categories of District debt obligations.

Financing Teams:

Financial advisors, bond counsel, and underwriters, where applicable, will be selected through a competitive process. Depending on particular expertise and consultant availability, some firms may be used on more than one program. However, efforts will be made to establish different teams to provide a number of firms the opportunity to participate in District contracts.

Bond Counsel:

The District debt will include a written opinion by legal counsel affirming that the District is authorized to issue the proposed debt, that the District has met all constitutional and statutory requirements necessary for issuance, and a determination of the proposed debt's federal and state income tax status. An appropriately experienced bond counsel firm (or firms) will prepare this approving opinion and other documents relating to the issuance of debt with extensive experience in public finance.

Disclosure Counsel:

The District will hire Disclosure Counsel(s) to prepare official statements in the event of any debt restructuring/refinancing or new bond issue. Disclosure Counsel(s) will be responsible for ensuring that the official statement complies with all applicable rules, regulations and guidelines. Disclosure Counsel(s) will be a well recognized firm(s) with extensive experience in public finance.

Disclosure by Financing Team Members:

The District expects that all of its financial advisory team will at all times provide the District with objective advice and analysis, maintain the confidentiality of the financial plans if required, and be free from any conflicts of interest. All financing team members will be required to provide full and complete disclosure, under penalty of perjury, relative to any and all agreements with other financing team members and outside parties that could compromise any firm's ability to provide independent advice that is solely in the best interests of the District or that could be perceived as a conflict of interest. The extent of disclosure may vary depending on the nature of the transaction.

Note: The aforementioned financial performance measures are established as policy objectives for the District management to strive to achieve in managing the

affairs of the District and may be temporarily suspended, modified or amended upon management review and Board approval.

6. Investment Policy

It is the policy of the NCRTD to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the District and conforming to all state statutes governing the investment of public funds.

Delegation of Authority

Responsibility for the management of the District's investment portfolio is delegated to the Districts Finance Manager by the Executive Director. The District's Finance Manager will establish and maintain written procedures for the operation of the cash management and investment program consistent with this policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Manager.

Prudent Person Rule

Investments on behalf of the District will be made in accordance with the "prudent person" rule; i.e. investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Scope of Policy

Unless otherwise noted, this investment policy will apply in its entirety to all monies of the District over which it has direct control as well as those funds that the District is responsible for as custodian and/or trustee.

Investment Objectives

The District seeks to balance three primary objectives for its cash portfolio:

- Maintaining sufficient liquidity to meet financial obligations;
- Earning a market rate of return (subject to permitted investment constraints); and
- Diversifying investments among asset classes to ensure safety of principal.

The liquidity goal is achieved by matching investment maturities with the expected timing of obligations. Attainment of a market return is measured by benchmarking the portfolio against a relevant market index. Diversification (safety) is accomplished through implementation of a strategic asset allocation, derived from modern portfolio theory concepts.

Performance Standards

The Districts' objective is to obtain a market average rate of return throughout budgetary and economic cycles that corresponds with invest risk constraints and cash flow needs.

The Districts investment strategy is passive. Given this strategy, the Finance Manager shall determine whether market yields are being achieved by comparing the average District portfolio yield to the 90 day U.S. Treasury Bill or the treasury security that most closely matches the duration of the portfolio.

Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and officials who are involved in investing public funds or have the authority to decide how public funds are invested shall disclose to the District Board any material financial interests in financial institutions that conduct business within the Districts jurisdiction, and they shall further disclose the conduct of personal business with, receipt of pecuniary benefit from, or financial interest they have in any entities in which investments are being made.

1. Permitted Investments (any investment not mentioned herein is prohibited)

    i. Direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by , the United States of America or certificates or receipts established by the United States government or its agencies or instrumentalities representing direct ownership of future interest or principal payments on direction obligations of, or obligations fully guaranteed by, the United States of America or any of its agencies or instrumentalities, the obligations of which are backed by the full faith and credit of the United States.
    ii. Accounts, certificates of deposit and time deposits with banks and savings banks located in the District's service area provided that the collateral securing the investment permitted by this paragraph, are secured by the FDIC.
    iii. Bonds or securities of the State of New Mexico or of any agency or political subdivision or school district thereof which has a taxable valuation of real property for the last year of at least one million dollars and has not defaulted

in the payment of interest or sinking fund obligation or failed to pay any bonds at maturity at any time within five years preceding the date of investment.

iv. The "short-term investment fund" described in Section 6-10-10.1 N.M.S. A. 1978 or other similar pooled funds maintained by the State of New Mexico for the investment of public funds of the local public bodies of the state.

v. Shares of pooled investment funds managed by the state investment officer, as provided in Subsection (G) of Section 6-7-8 NMSA 1978.

vi. Any other investment permitted at the time of the investment by a statue of the State of New Mexico for public entities.

2. Funds available for investment for more than one year, including monies appropriated to permanent and irrevocable trust funds may be invested as provided in Section 6-10-10.G NMSA 1978. The Investment Officer shall conduct a thorough investigation prior to investing in any pool or fund and on a continuing basis once an investment is made. Information gathered will include a written statement of policy and objectives, eligible securities, interest calculation and distribution, securities settlement and safekeeping, handling gains/losses, audit opinions, and fee schedules and statements.

3. Collateralization

New Mexico state law require that all certificates of deposit, money market, checking accounts, and any other investments not backed by the full faith and credit of the United States Government, other than investments in the New Mexico State Investment Council long-term investment funds, be secured by pledged collateral of at least 50 percent of the current market value. This collateral will be pledged in the name of the District and held by a third party institution, Federal Reserve Bank, or by a trust institution within the same bank as approved by the Financial Manager. The institution will issue safekeeping receipts to the District for securities held by a third party. The District will require that at all times; pledged collateral will be equal to, or greater than, 50 percent of the current market value of the Districts' applicable investments.

4. Selection of appropriate Investments

i. Individual investments are selected to meet anticipated cash flow requirements and provide adequate liquidity. Within this cash flow perspective, the investment manager will select those securities that will best meet the District's overall portfolio strategy.

ii. Criteria for selecting investments and the order of priority are:

1. Safety. The safety and risk associated with an investment refers to the potential loss of principal, interest or a combination of these amounts.

The objective is to select only those investments that seek to ensure the preservation of capital in the overall portfolio and to mitigate credit risk and market risk.

2. Liquidity. This refers to the ability to "cash in" at any moment in time with a minimal chance of losing principal or interest. Liquidity is an important investment quality, especially when the need for unexpected funds occurs. The objective is to remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated within one hundred and eighty (180) days.

3. Yield. Yield is the potential dollar earnings an investment can provide, also referred to as the rate of return. The objective is to attain a rate of return that equals or exceeds the yield for the three month treasury bill.

5. Diversification

The District will diversify its use of investment instruments to eliminate nonsystematic risk. Strategic and tactical asset allocations shall be determined and revised periodically. In establishing asset allocations strategies, the following general policies and constraints shall apply: Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity range. With the exception of U. S. Treasury securities and authorized pools, no more than 50% of the total investment portfolio will be invested in a single sector or with a single financial institution or in a single maturity range. Maturities selected shall provide for stability of income and reasonable liquidity.

1. Liquidity shall be assured through practices ensuring that the next disbursement date and payroll date are covered through maturing investments.
2. Interest rate risk shall be controlled through duration management such that overall portfolio duration is set to a target based on existing market interest rates and rate expectations.

Selection of Brokers/Dealers

The Financial Manager shall develop and maintain a list of banks and securities dealers approved for securities transactions initiated by the district, and it shall be the policy of the District to purchase securities only from those authorized firms. To be eligible, a firm must meet at least one of the following criteria:

1. Be recognized as a Primary Dealer by the Federal Reserve Bank of New York or have a Primary Dealer within its holding company structure,
2. Report voluntarily to the Federal Reserve Bank of New York,
3. Qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).

The Finance Manager will select broker/dealers on the basis of their expertise in public investing and their ability to provide service to the Districts account. Each authorized broker/dealer shall be required to submit and annually update a District approved Broker/Dealer Information Request form that includes the firm's most recent financial statements.

Approved broker/dealers shall attest in writing that they have received and read this Policy.

Safekeeping and Transaction Settlement

The Financial Manager shall approve one or more financial institutions to provide securities safekeeping services for the District. All investment securities purchased by the District will be held in third-party safekeeping by the District's safekeeping agent. The District's safekeeping agent will be required to furnish the District a list of holdings on at least a monthly basis. The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery versus payment basis. Ownership of all securities shall be perfected in the name of the District. Sufficient evidence to title shall be consistent with modern investment, banking, and commercial practices.

Competitive Transactions

Securities purchases and sales will be executed after obtaining at least two competitive bids or offerings whenever feasible. If the District is offered a security for which competitive offerings cannot be obtained, quotations for comparable securities will be documented

7. Risk Management Policy

The District is to be protected to a prudent extent against liability or loss, which could significantly affect personnel, property, finances or the ability of the District to continue to fulfill its responsibilities as a regional transit entity. This is to be accomplished through the continuous identification, analysis, and control of risk exposures, the determination of the best methods of preventing or limiting losses and the section of the most economical method of insurance or other means.

Policy

I. After identification of loss potential and development of loss prevention programs, the mitigation of the financial impact of loss, as it may occur, shall be based on the most economical method of providing funds to meet the obligations of the District and to restore its facilities and/or equipment.

II. Risk management techniques shall include:

a. Assumption of loss

b. Use of available government programs

c. Purchase of insurance

d. Any other program that will provide the District with the most economical method of financing losses

III. The purchase of insurance shall be considered when:

a. The estimate of the cost of potential loss exceeds an amount considered as an allowable retention of risk and there are no other techniques available at a lesser cost

b. Services of loss adjustment and loss prevention are best secured through an insured program

c. Legal or contractual obligations require insurance

8. Periodic Review and Amendment

The Financial Policies delineated herein shall be subject to review and revision by the District at least every three (3) years. This does not preclude the District from revising specific policies included herein nor from adding policies should the District determine that the best interest of the public and/or NCRTD would be served by making such a revision.

Amendments or revision to these financial policies may be initiated or proposed by any member of the District Board or by the Executive Director of the NCRTD.
Proposed amendments or revisions to these Financial Policies shall be first presented to and reviewed by the Board's Finance and Consolidation Subcommittee. The Subcommittee shall make a recommendation on any proposed amendment or revision to the District Board.

The District Board must approve any amendment or revision by majority vote before said amendment or revision shall become official policy of the NCRTD.

9. Management Reporting Requirements

The Executive Director will provide the District Board with an annual report on the Districts actual versus budget performance at the end of the fiscal year once the books have closed.

DRAFT

NORTH CENTRAL REGIONAL TRANSIT DISTRICT FINANCIAL POLICIES

GENERAL POLICIES

The North Central Regional Transit District (NCRTD) keeps its books on a full accrual basis. Billings to the New Mexico Department of Transportation (NM DOT) and draw downs from the Electronic Clearing House Operation System (ECHO) are done on a cash basis because the government will not reimburse for expenses until funds have been disbursed.

Budgets are developed annually and revisited as needed. The operating and capital portions of the budget are developed in accordance with the current service plan and the availability of funds. Budgets must be approved by the Board and submitted to the Department of Finance and Administration (DFA).

Multi-year budgets may be developed for planning purposes, but because of the uncertainty of each year's Federal and State funding levels these budgets are not considered to be definitive. They are mostly used to plan for projects that will depend on known or predictable funding sources such as the RT GRT, Capital funds that allow for more than one year to be expended, or funds member entities make available.

The NCRTD has a number of regular funding sources. Staff apply for all available Federal funds each year, including sections 5304 (Planning), 5309 (Capital), 5310 (Disabled and Elderly programs), 5311 (Rural Transit), 5316 (Job Access Reverse Commute) and any special appropriations that become available, such as the ARRA Stimulus program of 2009. Vigorous efforts are made to pursue state capital funds every legislative session. Member entities contribute such funds as are required to match Federal funds, and may contribute additional funds as well. The Regional Transit Gross Receipts Tax (RT GRT) passed by voters in November of 2008 covers a substantial portion of the NCRTD's budget.

The NCRTD undergoes an annual audit by an outside firm. This audit includes a Financial component and a Single Audit (A-133) as required of all entities receiving substantial Federal funding.

RESERVE POLICIES

The NCRTD is required by State DFA regulations to keep one month's cash reserves. The NCRTD will maintain a three-month reserve.

Fleet replacement is generally funded through Federal grants for Capital purchases. The NCRTD maintains a schedule of anticipated fleet replacement requirements based on age and condition of rolling stock. Staff conducts periodic reviews to determine whether this replacement schedule is reasonable and whether existing funding sources are adequate to maintain the fleet at the necessary level. If traditional funding sources appear inadequate to maintain the fleet the NCRTD may issue bonds or seek such other financing sources as are permitted under any applicable laws and regulations.

The NCRTD follows Federal Transit Administration (FTA) guidelines which state that transit entities receiving Federal funds should maintain a fleet of reserve vehicles not to exceed 20% of total rolling stock.

REGIONAL TRANSIT GROSS RECEIPTS TAX FUNDS

Revenues from the Regional Transit Gross Receipts Tax (RT GRT) are tracked in a fund dedicated to that purpose and divided into sub-funds according to the four counties that are the source of the revenues.

According to the ballot initiatives that created the RT GRT, the funds are to be used to expand public transit in the four-county area. The NCRTD interprets this to mean that RT GRT funds should be used to implement approved service plans per Board approved resolutions.

Approved service plans may include, but are not limited to, establishing entirely new routes; increasing the frequency of service on existing routes; purchasing more and larger vehicles so more riders may avail themselves of public transit; converting pilot projects to regular services; and coordinating with other service providers, such as Santa Fe Trails, the Taos Chili Line, Atomic City Transit, the Rail Runner, and Park & Ride to improve services and strive to provide a seamless transit experience to those in our service area.

Expenditures of RT GRT funds are made according to Board approved agreements (for example, contracts and resolutions) between the NCRTD and the four counties as follows:

(a) Each of the four counties has agreed to pay $250,000 per year for Administrative costs and set aside $250,000 per year for Capital, except for Santa Fe County which will manage its own Capital budgeting and expenditure process.

(b) Changes in how funds are allocated between Capital and Operating may be considered during the annual budgeting process and as such require Board approval. During the year any changes may be done administratively as long as they do not exceed 5% of the total RT GRT annual budget. When such changes are made the board is notified by memo.

(c) During Fiscal Year 2010 it was assumed that only three quarters of RT GRT funds would be received by the District because of anticipated delays between when the funds would begin to be collected (July 1, 2009) and when they would begin to flow to the District (September or October of 2009) so it was agreed that for the first year the Administrative and Capital portions would be $187,500.

(d) One half of all RT GRT funds collected in Santa Fe County are allocated to the Rail Runner through the Rio Metro Regional Transit District.

(e) Eighty-six percent (86%) of the remaining half of RT GRT funds collected in Santa Fe County are to be used by Santa Fe County in the implementation of its service plan. Should Santa Fe County wish to have the NCRTD provide services then a contractual arrangement will be made for these funds to be used for that purpose.

(f) The remaining 14% of RT GRT funds collected in Santa Fe County are allocated to the NCRTD to provide connecting service from all member entities to the Rail Runner, including all applicable NCRTD overhead and administrative costs.

(g) Los Alamos County will use its RT GRT funds to expand services with its existing transit system, Atomic City Transit.
(h) The NCRTD is responsible for seeing that RT GRT funds are spent appropriately. For those entities operating their own transit services (Los Alamos County and Santa Fe County at the time of passage of the RT GRT) an invoice shall be submitted periodically to the NCRTD requesting reimbursement of funds spent in accordance with RT GRT funded service plans. Invoices shall contain sufficient line-item detail to support that appropriateness of the expenditures and their agreement with the intended use of these funds. Upon receipt and review of the invoice, the NCRTD will reimburse the entity, provided sufficient RT GRT funds have been received.
(i) Rio Arriba County, which includes the City of Española, and Taos County will continue to be served by the NCRTD's transit system and their RT GRT funds will be used to implement the Service Plan currently in effect that was approved by the NCRTD's Board.
(j) The Fiscal Year 2010 contribution of Los Alamos County GRT funds in the amount of $880,000 will be used to defray Local Matches, with the balance to be paid out of each entity's RT GRT receipts. It is understood that this use of RT GRT funds may delay some parts of the implementation of the service plan, and the issue will be revisited in subsequent years.
(k) During each year's budgeting process, the Board considers the best use of any unspent funds accumulated in the RT GRT fund, both with respect to the individual entities and the best interests of the regional transit system as a whole. These considerations include service plan implementation, creation of reserves and such other matters that the Board deems important to the NCRTD and those in its service area.
(l) When RT GRT funds accumulate unspent to the extent that they accrue substantial interest income in excess of $1,000 per month, such interest will be allocated to the budgets of the entities that are the source of the unspent funds. These funds will be considered part of the RT GRT revenue earned by those entities. If unspent funds are reallocated in accordance with paragraph (k) above, interest earned on the reallocated funds will revert to the NCRTD's General Fund.

TRIBAL TRANSIT FUNDS

When requested, the NCRTD provides administrative services to manage Federal Tribal Transit funds awarded to tribal entities within its service area.

The NCRTD provides detailed budgets for these programs and, as far as possible, handles all administrative responsibilities with respect to the FTA. These budgets are not included in the NCRTD's consolidated budget because these funds are not awarded directly to the NCRTD but to the named Tribal Entities. Our relationship with the Pueblos with respect to these funds is contractual, as a provider of services. The NCRTD assesses an administrative fee and includes this as a line item in the budgets.

These funds do not require a local match.

The process for managing these funds includes the following steps:

1. The tribal governments fill out and sign the necessary paperwork (including a Designation of Signature Authority and other related paperwork) that grants NCRTD personnel access to their grant-related records, including the Transportation Award Management System (TEAM) and ECHO.
2. Working with the tribal entities, NCRTD staff assist in developing a service plan and an operating budget, including an agreed-upon percentage for Administrative costs.
3. NCRTD personnel enter the budgets and other project information into the FTA's TEAM system and work with FTA personnel to shepherd the application through the FTA approval process.
4. The NCRTD advances funds to cover operating costs.
5. NCRTD personnel prepare monthly reports detailing expenditures for tribal routes.
6. Included in this report is a line item called Administrative Fee which is intended to defray the NCRTD's costs of administrating these programs.
7. Using this information, either NCRTD staff enter the draw-down request into the ECHO payment system and send a copy of the report and the ECHO request to the relevant tribal entity, or Tribal personnel may perform this function, depending on FTA requirements and the wishes of Tribal authorities.
8. When the ECHO deposit is made in the tribal entity's bank account (usually two or three days after the request is submitted) the tribal entity issues a check to reimburse the NCRTD for the funds it has advanced to pay for the month's services.
9. NCRTD and tribal staff meet periodically to evaluate the effectiveness of the services being provided and the status of their budgets, making changes to each as necessary.

OTHER FEDERAL FUNDS

The NCRTD applies for Federal funds every year to the extent that they are available and uses these funds to provide services wherever they are needed within its service area. Decisions about how to use these funds are made in accordance with the latest board-approved service plan, taking into consideration the urgency of the need, the applicability of the federally mandated uses of the funds to the service areas and types of services being funded, and the availability of matching funds.